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C O N F I D E N T I A L SECTION 01 OF 02 LUANDA 000621

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STATE FOR AF AND EB;  
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STATE PASS TO USAID - AFR/SA ELOKEN, IMCNAIRN; AFR/AA WNORTH

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TAGS: ECON EFIN EPET PGOV QVIP CH AO

SUBJECT: ANGOLA: OIL BOOM FUELING ECONOMIC GROWTH AND  
ATTRACTING US INVESTORS

REF: A. LUANDA 250

- 1B. LUANDA 326  
1C. LUANDA 358

Classified By: Amb. Cynthia Efird for reasons 1.4 (b) and (d)

11. (C) Summary: Deputy Prime Minister Aguinaldo Jaime described Angola's efforts to manage its exceptionally high economic growth to A/S Jendayi Frazer, noting the creation of a stabilization fund to manage oil price fluctuations on the budgetary process; programs to increase Central Bank and Finance Ministry capacity, and the creation of a development bank to jump start the non-petroleum sector. Frazer and Jaime discussed the Chinese-Angolan commercial relationship and potential for trilateral US-Angolan-Chinese cooperation on a future project. A/S Frazer, in an address to the US business community in Luanda, stressed the deepening of the US-Angolan commercial relationship and USG efforts to help Angola develop its non-petroleum related industries; she announced a USTDA grant to study hydropower generation and distribution. End Summary.

12. (C) This cable covers bilateral meetings held in Luanda on May 31, 2007, between Assistant Secretary Frazer and Deputy Prime Minister Aguinaldo Jaime, and a business lunch sponsored by the US-Angola Chamber of Commerce. Political and defense issues; election-related meetings and visits, and bilateral assistance, including public-private partnerships, are reported in septels. Ambassador Frazer was accompanied by Ambassador Efird and a notetaker for each meeting/event. Angolan Ambassador to the United States Josefina Pitra Diakite also attended the meetings, as well as GRA staff.

Using Oil Revenues to Benefit All Angolans

13. (C) Deputy Prime Minister Aguinaldo Jaime was visibly upbeat about the strength of the Angolan economy (in 2006, 19 percent real growth overall, 15 percent in the non-petroleum sector). He described GRA efforts to use its oil wealth wisely to tackle infrastructure problems and to develop further the non-mineral economy effectively. For example, Angola has created a stabilization fund financed by oil revenues and managed by the National Bank of Angola (BNA) to provide a cushion should the price of oil fall below USD 50 per barrel. He added that the BNA also has received technical capacity building assistance from the World Bank and other institutions, including USAID. Jaime noted the World Bank recently approved new loans to Angola with terms of 4 percent interest and 25 years grace period on repayments. While not soft terms, he noted the terms remain easier than those of commercial credit. Although Angola

decided this year not to enter into a formal agreement with the IMF, IMF Article IV consultations and expert help continue (ref A).

¶14. (C) To spur non-mineral sector development, the GRA has established the Angolan Development Bank (BDA) to finance integrated projects embracing the entire production chain from the farmer's field to the store shelves. Jaime conceded the IMF and the World Bank were concerned about the terms and inflationary impact of a BDA, fearing the choice of sectors targeted for development would be influenced by non-economic considerations. However, he felt that the GRA was countering the concerns by hiring financial experts in key management roles of the bank.

#### The Challenges of Managing the Economy

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¶15. (C) Jaime also commented that the GRA has improved its budget process by more accurately forecasting its revenues. He said the GRA currently faces a challenge in downsizing the number of people on the government's payroll, noting that 40 percent of the GRA budget goes for salaries. However, he expected civil service reform to be slow, with the GRA reducing the public sector only as more jobs were created in the private sector, so as not to increase unemployment. The GRA is also hoping to bring the informal economy into the mainstream economy. Jaime noted that street vendors, who form a large part of the non-mineral economy, pay no taxes and receive almost no government services. The GRA wants to offer more stability, government services, and reliable basic services ) water, electricity, drains, roads -- so that paying taxes and doing business out of a fixed address will become more appealing to small entrepreneurs.

¶16. (C) Jaime said that the GRA is trying to regularize its

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complicated accounting for oil revenues. For example, Sonangol, the national oil company, sells imported fuel to the GRA below cost and the GRA subsidizes the cost of gasoline at the pump. He said the GRA is trying to pay Sonangol directly for the money it loses on fuel sales to the government and collect the taxes Sonangol owes for oil production. In response to A/S Frazer's urging that Angola join the Extractive Industries Transparency Initiative (EITI), Jaime said that Angola had already taken all required steps except for establishing the required joint governmental-civil society monitoring group. A commission had been formed and was now studying how such a body would be constituted under Angolan law.

#### Expanding Chinese-Angolan Cooperation to include the U.S.

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¶17. (C) A/S Frazer told Jaime that she and her Chinese counterpart agreed to explore cooperation between China and the United States on an agricultural development project in Angola (Ref B). Ambassador Efird related her meeting with China's Ambassador to Angola Beisan Zhang, in which she suggested working out concepts for joint projects. She said that Ambassador Zhang had interest in the prospect of cooperation and referred the matter to Beijing, where it remains under consideration. Jaime explained that China provides the largest single foreign source of financing for development work and the GRA directs most of that money to infrastructure projects, especially roads, railroads and government buildings. While the conditions of the Chinese line of credit obligate Angola to rely largely on Chinese contractors, up to thirty percent of the value of each project must go to Angolan businesses.

¶18. (C) Assistant Secretary Frazer closed by emphasizing the U.S. interest in working with the GRA to improve its ability to manage resources and expenditures. She expressed disappointment that an agreement with the IMF had not been reached but encouraged continued IMF and World Bank technical cooperation. Jaime noted his appreciation for USG

(especially USAID) assistance to the Finance Ministry and the National Bank of Angola and indicated an interest in continued cooperation, including the signing of a Trade & Investment Framework Agreement (TIFA).

Expanding U.S.-Angola Commercial Ties

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¶9. (C) During a well-attended lunch sponsored by the U.S.-Angola Chamber of Commerce, Frazer delivered formal remarks on the deepening US-Angola bilateral relationship, which encompasses activities such as capacity building on financial sector reforms, military cooperation and health programs. A/S Frazer described the continuing American investment in the petroleum sector and the need to encourage more U.S. investment in the non-oil sectors of the economy. She highlighted that Angola could encourage more US investment by lowering the number of days it takes to register a company and signing a TIFA. As part of non-petroleum sector development, A/S Frazer announced a grant from the United States Trade and Development Agency to study hydropower generation for two Angolan provincial municipalities, which could serve as a model for future energy generation throughout the country. She expressed USG willingness to continue to work with the GRA to make Angola more attractive to investors, especially by initializing a TIFA with Angola. She urged the U.S.-Angola Chamber of Commerce to continue its work, noting the recent success of Angola week in the U.S.

¶10. (C) Comment: Deputy Prime Minister Jaime, as always, presented the government of Angola's economic reform efforts comprehensively and with polish. Even he, however, admits the great challenges the high economic growth rate poses to an economic team with little competent backup and weak follow-through. In this meeting with the Assistant Secretary and in other meetings GRA officials were uniformly positive about signing a TIFA. Concrete movement, however, has yet to catch up with the good will.

¶11. A/S Frazer has approved this cable  
EFIRD